

**WAVECREST
CAREER ACADEMY
Ottawa County, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2007

WAVECREST CAREER ACADEMY
Table of Contents

For the year ended June 30, 2007

Financial Section

<i>Independent Auditor's Report</i>	1
<i>Management's Discussion and Analysis</i>	3
<i>Basic Financial Statements</i>	9

School-wide Financial Statements:

Statement of Net Assets.....	10
Statement of Activities	11

Fund Financial Statements:

Governmental Funds:

Balance Sheet	12
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – General Fund	16
Notes to Basic Financial Statements	17

Supplemental Information

Individual Fund Statements and Schedules:

General Fund	27
Balance Sheet	28
Schedule of Revenues	29
Schedule of Expenditures.....	30

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	33
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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

November 9, 2007

The Board of Directors
Wavecrest Career Academy
Holland, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund information of Wavecrest Career Academy (the "Academy") as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's elected officials and management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund information of Wavecrest Career Academy at June 30, 2007, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2007 on our consideration of Wavecrest Career Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Wavecrest Career Academy. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

WAVECREST CAREER ACADEMY
Management's Discussion and Analysis
June 30, 2007

As management of Wavecrest Career Academy, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with Wavecrest Career Academy's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of Wavecrest Career Academy:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *school-wide* financial statements that provide both short-term and long-term information about Wavecrest Career Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of Wavecrest Career Academy, reporting operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes individual fund statements.

School-wide Statements

The school-wide financial statements report information about Wavecrest Career Academy as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of Wavecrest Career Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two school-wide statements report Wavecrest Career Academy's net assets, and how they have changed. Net assets - the difference between assets and liabilities - is one way to measure Wavecrest Career Academy's financial health or position.

- Over time, increases or decreases in Wavecrest Career Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess Wavecrest Career Academy's overall health, one should consider additional non-financial factors such as changes in pupil membership and the condition of the Academy's building and equipment.

In the school-wide financial statements, Wavecrest Career Academy's activities are presented as follows:

- *Governmental activities*: Wavecrest Career Academy's basic services are included here, such as regular and special education, instructional support, and administration. State aid finances most of these activities.

WAVECREST CAREER ACADEMY
Management's Discussion and Analysis
June 30, 2007

Condensed School -Wide Financial Information

The Statement of Net Assets provides financial information for Wavecrest Career Academy as a whole.

	<u>2007</u>
Assets	
Current assets	\$ 615,049
Net capital assets	<u>4,871</u>
Total Assets	<u>619,920</u>
Liabilities	
Current liabilities	543,049
Long-term liabilities	<u>5,492</u>
Total Liabilities	<u>548,541</u>
Net Assets	
Invested in capital assets	4,871
Unrestricted	<u>66,508</u>
Total Net Assets	<u><u>\$ 71,379</u></u>

WAVECREST CAREER ACADEMY
Management's Discussion and Analysis
June 30, 2007

The results of the fiscal year's operations for Wavecrest Career Academy as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

	<u>2007</u>
Program Revenues	
Operating grants	\$ 241,559
General Revenues	
State school aid, unrestricted	869,448
Interest earnings	6,447
Other	<u>208</u>
Total Revenues	<u>1,117,662</u>
Expenses	
Instruction	438,293
Supporting services	594,088
Facilities acquisition	<u>13,902</u>
Total Expenses	<u>1,046,283</u>
Increase in net assets	71,379
Net Assets - Beginning of Year	<u>—</u>
Net Assets - End of Year	<u><u>\$ 71,379</u></u>

Financial Analysis of the Academy as a Whole

Wavecrest Career Academy's financial position is the product of many factors.

Unrestricted state aid accounted for most of Wavecrest Career Academy's revenue, contributing 78 percent of every dollar raised. Another 22 percent came from State, federal and local aid for specific programs and the remainder from interest earnings and miscellaneous sources.

Wavecrest Career Academy's expenses are predominantly related to instructing students (56 percent). Instruction support, administration and operation and maintenance accounted for 42 percent of total costs. The most significant contributors to costs were salary, retirement and health insurance.

Total revenues surpassed expenses, increasing net assets by \$71,379.

Wavecrest Career Academy continues to monitor the General Fund expenditure budget through stringent purchasing controls.

WAVECREST CAREER ACADEMY
Management's Discussion and Analysis
June 30, 2007

Fund Financial Statements

The fund financial statements provide more detailed information about Wavecrest Career Academy's funds, focusing on its most significant or "major" fund (the General Fund) - not the Academy as a whole. Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs.

Wavecrest Career Academy utilizes only one kind of fund:

- *Governmental funds:* All of Wavecrest Career Academy's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance Academy programs. Because this information does not encompass the additional long-term focus of the school-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

Financial Analysis of the Academy's Fund

Wavecrest Career Academy uses funds to record and analyze financial information. Wavecrest Career Academy's fund is described as follows:

Major Fund

The General Fund is Wavecrest Career Academy's primary operating fund. The General Fund had total revenues of \$1,117,662 and total expenditures of \$1,043,831. It ended the fiscal year with a fund balance of \$73,831.

General Fund Budgetary Highlights

Wavecrest Career Academy revised the annual operating budget twice during the year. These budget amendment fell into the following categories:

- Changes made in March to reflect actual State and grant awards resulting from the final student enrollment count that determines how much foundation grant school aid will be received during the fiscal year, and to adjust expenditures to coordinate with the increased revenues.
- Although the Academy's final budget for the General Fund anticipated revenues would exceed expenditures by \$17,809, the actual results for the year show a \$73,831 increase for the fiscal year.
- Actual revenues were \$121,995 lower than expected, due mainly to lower than expected federal grant revenues.
- Actual expenditures were \$178,017 below budget, due to savings in various budget categories.

WAVECREST CAREER ACADEMY
Management's Discussion and Analysis
June 30, 2007

Capital Asset and Debt Administration

Capital Assets

By the end of 2007, Wavecrest Career Academy had invested a total of \$5,845 in capital assets, including furniture and equipment. More detailed information about capital assets can be found in Note D in the Notes to Basic Financial Statements.

The net book value of capital assets at June 30, 2007 are as follows:

Furniture and equipment	<u>\$ 4,871</u>
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Long-Term Debt

At year end, the District had total long-term debt of \$7,323 which represents the value of the unused accumulated sick leave payable.

Factors Bearing on the Academy's Future

At the time these financial statements were prepared and audited, Wavecrest Career Academy was aware of the following existing circumstances that could significantly affect its financial health in the future:

- Wavecrest currently rents its facility from Holland Public Schools. In the future the need may exist to either purchase the facility, or secure an alternate facility.
- Wavecrest's current enrollment for the 2007-08 school year is estimated to be approximately 150 full-time equivalent students. This increase in enrollment will result in an increase in instructional staff, supplies, etc. These will be offset by the additional increase in State School Aid funding.

Contacting the Academy's Financial Management

This financial report is designed to provide Wavecrest Career Academy's parents, citizens, customers, investors and creditors with a general overview of Wavecrest Career Academy's finances and to demonstrate Wavecrest Career Academy's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Assistant Superintendent for Business Services of Ottawa Area Intermediate School District, 13565 Port Sheldon Street, Holland, Michigan, 49424.

BASIC FINANCIAL STATEMENTS

WAVECREST CAREER ACADEMY
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash equivalents (Note B)	\$ 275,544
Due from other governmental units (Note C)	335,054
Prepaid expenses	<u>4,451</u>
Total Current Assets	<u>615,049</u>
Noncurrent Assets	
Capital assets (Note D)	5,845
Less accumulated depreciation	<u>(974)</u>
Total Noncurrent Assets	<u>4,871</u>
Total Assets	<u>619,920</u>
Liabilities	
Current Liabilities	
Accounts payable	27,791
Due to other governmental units	18,614
Payroll withholdings payable	2,199
Salaries payable	42,614
Loan payable (Note E)	450,000
Current portion of long-term obligations	<u>1,831</u>
Total Current Liabilities	<u>543,049</u>
Noncurrent Liabilities	
Accumulated vacation pay (Notes A, F)	7,323
Current portion of long term obligations	<u>(1,831)</u>
Total Noncurrent Liabilities	<u>5,492</u>
Total Liabilities	<u>548,541</u>
Net Assets	
Invested in capital assets	4,871
Unrestricted	<u>66,508</u>
Total Net Assets	<u><u>\$ 71,379</u></u>

See accompanying notes to basic financial statements.

WAVECREST CAREER ACADEMY
Statement of Activities
For the year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues Charges for Services	Operating Grants	Net (Expense) Revenue and Changes In Net Assets
Governmental Activities				
Instruction	\$ 438,293	\$ -	\$ 241,559	\$ (196,734)
Supporting services	594,088	-	-	(594,088)
Facilities acquisition	13,902	-	-	(13,902)
Total Governmental Activities	<u>\$ 1,046,283</u>	<u>\$ -</u>	<u>\$ 241,559</u>	<u>(804,724)</u>
General Revenues				
State school aid, unrestricted				869,448
Interest earnings				6,447
Other				208
Total General Revenues				<u>876,103</u>
Change in Net Assets				71,379
Net Assets - Beginning of Year				<u>-</u>
Net Assets - End of Year				<u><u>\$ 71,379</u></u>

See accompanying notes to basic financial statements.

WAVECREST CAREER ACADEMY
Balance Sheet
Governmental Funds
June 30, 2007

	<u>General</u>
Assets	
Cash equivalents (Note B)	\$ 275,544
Due from other governmental units (Note C)	335,054
Prepaid expenditures	<u>4,451</u>
Total Assets	<u><u>\$ 615,049</u></u>
 Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 27,791
Due to other governmental units	18,614
Payroll withholdings payable	2,199
Salaries payable	42,614
Loan payable (Note E)	<u>450,000</u>
Total Liabilities	<u>541,218</u>
Fund Balances	
Unreserved:	
Undesignated, reported in:	
General fund	<u>73,831</u>
Total Liabilities and Fund Balances	<u><u>\$ 615,049</u></u>

See accompanying notes to basic financial statements.

WAVECREST CAREER ACADEMY
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2007

Total governmental fund balances	\$ 73,831
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$5,845 and accumulated depreciation is \$974.	4,871
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Accumulated vacation pay	<u>(7,323)</u>
Total net assets - governmental activities	<u><u>\$ 71,379</u></u>

See accompanying notes to basic financial statements.

WAVECREST CAREER ACADEMY
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2007

	<u>General</u>
Revenues	
Local sources	\$ 6,655
State sources	894,805
Federal sources	177,717
Interdistrict sources	<u>38,485</u>
Total Revenues	<u>1,117,662</u>
Expenditures	
Current:	
Instruction	438,293
Supporting services	591,636
Facilities acquisition	<u>13,902</u>
Total Expenditures	<u>1,043,831</u>
Net Change in Fund Balances	73,831
Fund Balances, Beginning of Year	<u>-</u>
Fund Balances, End of Year	<u><u>\$ 73,831</u></u>

See accompanying notes to basic financial statements.

WAVECREST CAREER ACADEMY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2007

Net change in fund balances - total governmental funds \$ 73,831

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the Statement of Activities, the cost of these assets is capitalized
and the cost is allocated over their estimated useful lives as deprecia-
tion expense. This is the amount by which capital outlays exceeded
depreciation in the current period:

Capital outlays	\$ 5,845	
Depreciation expense	<u>(974)</u>	4,871

In the Statement of Net Assets, accumulated vacation pay is measured by
the amounts earned during the year. In the governmental funds, however,
expenditures are measured by the amount of financial resources used
(essentially, the amounts actually paid). This year the amount of these
earned (\$8,958) exceeded the amounts benefits used/paid (\$1,635).

(7,323)

Total changes in net assets - governmental activities

\$ 71,379

See accompanying notes to basic financial statements.

WAVECREST CAREER ACADEMY
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ -	\$ 6,000	\$ 6,655	\$ 655
State sources	1,154,598	894,978	894,805	(173)
Federal sources	300,000	300,194	177,717	(122,477)
Interdistrict sources	43,090	38,485	38,485	-
Total Revenues	<u>1,497,688</u>	<u>1,239,657</u>	<u>1,117,662</u>	<u>(121,995)</u>
Expenditures				
Current:				
Instruction:				
Basic programs	465,054	425,030	357,549	67,481
Added needs	120,311	82,767	80,744	2,023
Supporting services:				
Pupil services	89,103	75,951	75,084	867
Instructional staff services	201,100	248,150	195,129	53,021
General administrative services	225,053	26,083	26,083	-
School administrative services	-	24,845	21,759	3,086
Business services	25,000	51,150	48,773	2,377
Operation and maintenance services	179,598	131,205	107,892	23,313
Pupil transportation services	41,000	23,113	18,629	4,484
Central services	44,121	113,652	92,287	21,365
Other supporting services	-	6,000	6,000	-
Interdistrict	18,000	-	-	-
Facilities acquisition	-	13,902	13,902	-
Total Expenditures	<u>1,408,340</u>	<u>1,221,848</u>	<u>1,043,831</u>	<u>178,017</u>
Net Change in Fund Balances	<u>89,348</u>	<u>17,809</u>	<u>73,831</u>	<u>56,022</u>
Fund Balances, July 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, June 30	<u>\$ 89,348</u>	<u>\$ 17,809</u>	<u>\$ 73,831</u>	<u>\$ 56,022</u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

WAVECREST CAREER ACADEMY
Notes to Basic Financial Statements
June 30, 2007

Note A – Summary Of Significant Accounting Policies

Wavecrest Career Academy received its charter under the Revised School Code of 1976, as amended by Public Acts 362 of 1993, 416 of 1994, 289 of 1995, and 179 of 2003 from Ottawa Area Intermediate School District on April 13, 2006. According to the contract with Ottawa Area Intermediate School District, Wavecrest Career Academy is to act exclusively as a governmental agency and is not to undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Under this contract, Ottawa Area Intermediate School District provides certain services to Wavecrest Career Academy including approval of Wavecrest Career Academy's operating plan, monitoring compliance with provisions of the charter contract and the selection of members for the Board of Directors. Ottawa Area Intermediate School District is paid a 3% administration fee by Wavecrest Career Academy for such services.

Wavecrest Career Academy is exempt from taxation as a governmental entity pursuant to Internal Revenue Code Section 115. Wavecrest Career Academy qualifies for public charity status by meeting the requirements of Internal Revenue Code Sections 509(1) and 170(b)(A)(ii).

The Academy is governed by a Board of Directors consisting of five members approved by Ottawa Area Intermediate School District and administered by a Director who is appointed by the aforementioned Board. The Academy provides educational services for approximately 120 full-time students as specified by state statute and Board of Directors policy. These services include elementary education, preschool programs, special education, community services and general administrative services.

The financial statements of Wavecrest Career Academy (the "Academy") have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Academy's accounting policies are described below.

1. The Reporting Entity

The financial reporting entity consists of a primary government and its component units. The Academy is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the Academy for financial statement presentation purposes, and the Academy is not included in any other governmental reporting entity. Consequently, the Academy's financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. School-Wide and Fund Financial Statements

School-Wide Financial Statements - The school-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the Academy as a whole. The reported information includes all of the nonfiduciary activities of the Academy. The Academy does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the Academy. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The Academy does not have any business-type activities.

WAVECREST CAREER ACADEMY
Notes to Basic Financial Statements
June 30, 2007

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The Academy's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the Academy's only major fund.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the school-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are State aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the Academy before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

School-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School

WAVECREST CAREER ACADEMY
Notes to Basic Financial Statements
June 30, 2007

Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the school-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. A district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Directors. Expenditures may not legally exceed budget appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Wavecrest Career Academy utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- The Board of Directors and the Director establish proposed operating budgets for the ensuing fiscal year.
- The preliminary operating budget is submitted to the Board of Directors by the Director. This budget includes proposed expenditures and the means of financing them.
- After the budget is finalized, the Board of Directors adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General Fund budget was amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).

WAVECREST CAREER ACADEMY
Notes to Basic Financial Statements
June 30, 2007

- The budget for the General Fund was adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

8. Capital Assets

Capital assets, which may include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the school-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Furniture and equipment

3-10 years

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Accumulated Vacation Pay

Accumulated vacation pay at June 30, 2007 has been computed and recorded in the basic financial statements of the Academy. Eligible Academy employees are entitled to payments based on their unused vacation days. At June 30, 2007, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for accumulated vacation pay amounted to \$7,323.

WAVECREST CAREER ACADEMY
Notes to Basic Financial Statements
June 30, 2007

11. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

Cash Equivalents

Depositories actively used by the Academy during the year are detailed as follows:

1. Huntington National Bank

Balances at June 30, 2007 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Cash equivalents	<u><u>\$ 275,544</u></u>
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Cash equivalents consist of bank and checking accounts.

WAVECREST CAREER ACADEMY
Notes to Basic Financial Statements
June 30, 2007

Custodial credit risk

Custodial credit risk is the risk that in the event of bank or credit union failure, the Academy's cash equivalents may not be returned to the Academy. Protection of Academy cash equivalents is provided by the Federal Deposit Insurance Corporation and the National Credit Union Association. At year end, the carrying amount of the Academy's cash equivalents was \$275,544 and the bank balance was \$291,356. Of the bank balance, \$100,000 was covered by federal depository insurance and \$191,356 was uninsured.

Note C – State School Aid

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan schools in the form of a per pupil "Foundation Allowance" paid on a "blended count" of Academy pupil membership in February, 2006 and September, 2006. The 2006-07 "Foundation Allowance" for Wavecrest Career Academy was \$7,223 for 120 "Full Time Equivalent" students, generating \$894,805 in state aid payments to the Academy of which \$157,430 was paid to the Academy in July and August, 2007 and included in "Due From Other Governmental Units" of the General Fund.

Note D – Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Balances July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2007</u>
Capital assets being depreciated:				
Furniture and equipment	\$ —	\$ 5,845	\$ —	\$ 5,845
Less accumulated depreciation for:				
Furniture and equipment	<u>—</u>	<u>974</u>	<u>—</u>	<u>974</u>
Net Capital Assets	<u><u>\$ —</u></u>			<u><u>\$ 4,871</u></u>

Depreciation expense was charged to Academy activities as follows:

Governmental activities:	
Supporting services	<u><u>\$ 974</u></u>

Note E – Short-term Debt

The Academy borrowed \$450,000 at 4.89% on July 18, 2006 for cash-flow purposes, which matures on August 1, 2007. Interest expense was \$21,272 for the fiscal year.

WAVECREST CAREER ACADEMY
Notes to Basic Financial Statements
June 30, 2007

Note F – Long-term Debt

Changes in long-term debt for the year ended June 30, 2007 are summarized as follows:

	Debt Outstanding July 1, 2006	Debt Added	Debt Retired	Debt Outstanding June 30, 2007
Accumulated vacation pay	\$ —	\$ 8,958	\$ 1,635	\$ 7,323

Note G – Retirement Plan

Substantially all Academy employees participate in the Michigan Public School Employees' Retirement System (MPERS), a multiple employer public retirement system. The Academy payroll for employees covered by MPERS for the year ended June 30, 2007 was \$405,324. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

Schools in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 16.34% for the fiscal year ending September 30, 2006 and 17.74% for the fiscal year beginning October 1, 2006. The Academy's contributions to the plan for the fiscal years ended June 30, 2007 (first year of operation) was \$71,133.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2005 (the latest reporting date available expressed as \$ in millions) for the MPERS as a whole, determined through an actuarial valuation performed as of that date, was \$48,206. The MPERS' net assets available for benefits on that date were \$38,211 leaving an unfunded pension benefit obligation of \$9,995. Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2006 Annual Report of the MPERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$2,462 from September 30, 2004 to September 30, 2005. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

WAVECREST CAREER ACADEMY
Notes to Basic Financial Statements
June 30, 2007

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 3 years.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the Academy's total contribution to the MPSERS as discussed above.

Note H – Operating Lease

The School leases its facilities under an operating lease on a month-to-month basis from Holland Public Schools. Rent expense was \$62,000 for the year ended June 30, 2007. Future annual rent expense is expected to approximate the amount paid in 2006-07.

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the School and not required to be accounted for in another fund.

WAVECREST CAREER ACADEMY
General Fund
Balance Sheet
June 30, 2007

	<u>2007</u>
Assets	
Cash equivalents	\$ 275,544
Due from other governmental units	335,054
Prepaid expenditures	<u>4,451</u>
Total Assets	<u><u>\$ 615,049</u></u>
 Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 27,791
Due to other governmental units	18,614
Payroll withholdings payable	2,199
Salaries payable	42,614
Loan payable	<u>450,000</u>
Total Liabilities	<u>541,218</u>
 Fund Balances	
Unreserved:	
Undesignated	<u>73,831</u>
Total Liabilities and Fund Balances	<u><u>\$ 615,049</u></u>

WAVECREST CAREER ACADEMY
General Fund
Schedule of Revenues
For the year ended June 30, 2007

	<u>2007</u>
Local sources:	
Interest earnings:	
Interest on cash equivalents	\$ 6,447
Other local revenue:	
School based Medicaid	206
Miscellaneous	<u>2</u>
	<u>208</u>
Total local sources	6,655
State sources:	
State aid	869,448
At-risk	19,357
First robotics	<u>6,000</u>
Total state sources	894,805
Federal sources:	
Title VA	22
Title VB	177,133
I.D.E.A. program	<u>562</u>
Total federal sources	177,717
Interdistrict sources:	
Special education - county	<u>38,485</u>
Total Revenues	<u><u>\$ 1,117,662</u></u>

WAVECREST CAREER ACADEMY
General Fund
Schedule of Expenditures
For the year ended June 30, 2007

Current:

Instruction:

Basic programs:

High school:

Salaries	\$ 200,078
Employee benefits	91,683
Purchased services	3,746
Supplies	36,660
Capital outlay	22,266
Miscellaneous	3,116
	<hr/>
Total basic programs	357,549

Added needs:

Special education:

Salaries	42,175
Employee benefits	22,314
Purchased services	6,206
Supplies	49
	<hr/>
	70,744

Compensatory education:

Salaries	6,936
Employee benefits	3,064
	<hr/>
	10,000

Total added needs

80,744

Supporting services:

Pupil services:

Guidance services:

Salaries	49,561
Employee benefits	14,406
Purchased services	7,788
Supplies	107
Capital outlay	990
	<hr/>
	72,852

Homebound services:

Salaries	1,780
Employee benefits	452
	<hr/>
	2,232

Total pupil services

75,084

Instructional staff services:

Improvement of instruction:

Purchased services	4,179
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Technology assisted instruction:

Supplies	30,017
Capital outlay	4,997
	<hr/>
	35,014

WAVECREST CAREER ACADEMY
General Fund
Schedule of Expenditures
For the year ended June 30, 2007

Supervision and direction of instruction:	
Salaries	\$ 115,354
Employee benefits	35,322
Purchased services	1,947
Supplies	2,391
Miscellaneous	922
	<u>155,936</u>
Total instructional staff services	<u>195,129</u>
General administrative services:	
Executive administration:	
Payments to other districts	26,083
School administrative services:	
Office of the principal:	
Purchased services	3,485
Supplies	9,646
Capital outlay	8,628
Total school administrative services	<u>21,759</u>
Business services:	
Fiscal services:	
Purchased services	27,320
Other business services:	
Miscellaneous	21,453
Total business services	<u>48,773</u>
Operation and maintenance services:	
Operation and maintenance:	
Purchased services	85,031
Supplies	20,815
Capital outlay	2,046
Total operation and maintenance services	<u>107,892</u>
Pupil transportation services:	
Pupil transportation:	
Purchased services	18,629
Central services:	
Staff/personnel services:	
Purchased services	21,942
Technology services:	
Purchased services	13,578
Supplies	13,119
Capital outlay	43,648
	<u>70,345</u>
Total central services	<u>92,287</u>

(Continued)

WAVECREST CAREER ACADEMY
General Fund
Schedule of Expenditures
For the year ended June 30, 2007

Other supporting services:	
First robotics:	
Purchased services	\$ 2,000
Miscellaneous	<u>4,000</u>
Total other supporting services	<u>6,000</u>
Facilities acquisition:	
Purchased services	<u>13,902</u>
Total Expenditures	<u><u>\$ 1,043,831</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

November 9, 2007

The Board of Directors
Wavecrest Career Academy
Holland, Michigan

We have audited the financial statements of the governmental activities and the major fund information of Wavecrest Career Academy as of and for the year ended June 30, 2007, which collectively comprise Wavecrest Career Academy's basic financial statements and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wavecrest Career Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wavecrest Career Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Wavecrest Career Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Wavecrest Career Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Wavecrest Career Academy's financial statements that is more than inconsequential will not be prevented or detected by Wavecrest Career Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Wavecrest Career Academy's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wavecrest Career Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Wavecrest Career Academy in a separate letter dated November 9, 2007.

This report is intended solely for the information and use of management, the Board of Directors, the Michigan Department of Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants

Hungerford, Aldain, Nichols & Carter, P.C.

Certified Public Accountants

Hungerford, Aldrin,
Nichols & Carter, P.C.

C P A s AND C O N S U L T A N T S

November 9, 2007

The Board of Directors
Wavecrest Career Academy
Holland, Michigan

The following comments pertain to our audit of the financial records of Wavecrest Career Academy as of and for the year ended June 30, 2007. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the Academy's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Wavecrest Career Academy:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Wavecrest Career Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Wavecrest Career Academy are described in Note A in the Notes to Basic Financial Statements.

Significant Audit Adjustments

During the course of our audit no adjustments of a significant nature were made to the accounting records of the District.

Proposed Audit Adjustments

There were no material proposed audit adjustments not recorded by Wavecrest Career Academy.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Wavecrest Career Academy as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

Other Comments

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), issued by the American Institute of Certified Public Accountants (AICPA) which requires both auditors and their clients to more directly and openly assess those areas within a school that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Wavecrest Career Academy has an adequate system of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. We will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the Academy in maintaining and improving its systems.

In the fall of 2006, the AICPA issued Statement on Auditing Standards No. 112 “Communicating Internal Control Related Matters Identified in an Audit”, which requires a written communication from an auditor to an organization’s governing board if any weaknesses in internal controls (“control deficiencies”) rise to the level of “significant deficiencies” or “material weaknesses” that might effect the integrity of the financial statements. The AICPA significantly broadened the standards as to what might be a significant deficiency and/or material weakness and raised the expectations of auditors to report these control deficiencies if found. We did not find any control deficiencies during our audit of Wavecrest Career Academy for the year ended June 30, 2007, mainly due to the strong control procedures and knowledge of school district accounting requirements and financial statement presentation standards in place within the Ottawa Area Intermediate School District business office, the interaction between the Academy Director and the business office, and the oversight of the Academy’s Board of Directors.

* * * * *

This communication is intended solely for the information and use of the Wavecrest Career Academy Board of Directors, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Wavecrest Career Academy and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the Academy's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

Hungerford, Aldrin, Nichols & Horton, P.C.

Certified Public Accountants